

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Union Electric Company d/b/a AmerenUE	:	
	:	
Request pursuant to Section 6-102 of the	:	
Illinois Public Utilities Act for an order	:	
authorizing Union Electric Company d/b/a	:	
AmerenUE to incur an indebtedness by	:	
undertaking the obligation to pay the	:	03-0426
principal, interest and redemption	:	
premium, if any, on up to \$200,000,000	:	
principal amount of Senior Secured Notes	:	
for the purpose of refunding, redeeming	:	
and/or refinancing outstanding evidences	:	
of indebtedness.	:	

ORDER

By the Commission:

Introduction

On July 7, 2003, Union Electric Company d/b/a AmerenUE ("UE or "Company") filed a verified "Informational Statement" with the Illinois Commerce Commission ("Commission") pursuant to Section 6-102(d) of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq.

In the Informational Statement, UE seeks an order from the Commission authorizing the issuance of up to \$200,000,000 principal amount of Senior Secured Notes ("Notes") to be secured by an underlying "mirror" issue of first mortgage bonds until the "release date." This authorization is sought for the purpose of refunding, redeeming and/or refinancing outstanding evidences of indebtedness.

On July 14, 2003, the Staff of the Illinois Commerce Commission ("Staff") filed a verified response to the Informational Statement. Staff recommends that the Commission issue an Order, pursuant to Section 6-102(d) of the Act, authorizing the transactions described in the Company's Informational Statement and identifying the applicable provisions of the Act and Illinois Administrative Code.

Statutory Authority for Proposed Financing

As explained more fully below, UE states that its filing is governed by Section 6-102(d) of the Act, and that Section 6-102(b) is not applicable to the proposed

financing. In Subsection 6-102(b) of Section 6-102 of the Act, the first sentence provides as follows:

(b) The provisions of this subsection (b) shall apply only to (1) any issuances of stock in a cumulative amount, exclusive of any issuances referred to in item (3), that are 10% or more in a calendar year or 20% or more in a 24-month period of the total common stockholders' equity or of the total amount of preferred stock outstanding, as the case may be, of the public utility, and (2) to any issuances of bonds, notes or other evidences of indebtedness in a cumulative principal amount, exclusive of any issuances referred to in item (3), that are 10% or more in a calendar year or 20% or more in a 24-month period of the aggregate principal amount of bonds, notes and other evidences of indebtedness of the public utility outstanding, all as of the date of the issuance, but shall not apply to (3) any issuances of stock or of bonds, notes or other evidences of indebtedness 90% or more of the proceeds of which are to be used by the public utility for purposes of refunding, redeeming or refinancing outstanding issues of stock, bonds, notes or other evidences of indebtedness

Subsection 6-102(d) of Section 6-102 of the Act provides in part as follows:

(d) Any issuance of stock or of bonds, notes or other evidences of indebtedness, other than issuances of notes pursuant to subsection (c) of this Section, which is not subject to subsection (b) of this Section, shall be regulated by the Commission as follows: the public utility shall file with the Commission, at least 15 days before the date of the issuance, an informational statement setting forth the type and amount of the issue and the purpose or purposes to which the issue or the proceeds thereof are to be applied. Prior to the date of the issuance specified in the public utility's filing, the Commission, if it finds that the issuance is not subject to subsection (b) of this Section, shall issue a written order in conformance with subsection (a) of this Section authorizing the issuance

Nature and Purpose of Proposed Financing

In the transactions which are the subject of the instant proceeding, UE intends to issue and sell up to \$200,000,000 aggregate principal amount of Notes in one or more series with the pricing and issuance of securities scheduled to occur on or after July 22, 2003.

The terms of the Notes, including but not limited to the maturity, price, rate or method of calculation of interest and dates for payment thereof, and any redemption, prepayment or sinking fund provisions, will be determined at the time of the offering. The Company is currently contemplating issuing Notes for up to 35-year terms, depending on market conditions at the time of the offering. It is expected that interest

rate(s) will not exceed 7.0%; however, the actual interest rate(s) will be determined at the time of the offering or periodically during the term of the Notes. According to UE, if the Company were to issue securities at this time with a 30-year maturity, it would expect an interest rate of about 5.50%.

The Notes will be an issue of a new series of debt securities issued under, and secured by, an existing indenture (the "Senior Note Indenture"), between The Bank of New York, as trustee, and UE dated August 15, 2002, the form of which was attached to the Informational Statement submitted by the Company in Docket No. 02-0484 and the subject of the Commission's Orders dated August 6, 2002, October 1, 2002, March 4, 2003, and March 26, 2003.

Prior to the release date as described below, all of the Notes outstanding under the Senior Note Indenture will be secured by one or more series of the Company's senior note mortgage bonds issued under its first mortgage indenture, the terms of which will mirror the Notes. The senior note mortgage bonds are secured by a lien on substantially all of the property owned by the Company. The release date will be the date that all of the Company's first mortgage bonds issued and outstanding under its first mortgage indenture, other than senior note mortgage bonds, have been redeemed or retired. On the release date, the Notes will cease to be secured by the senior note mortgage bonds, will become the Company's unsecured general obligations and will rank equally with all of the Company's unsecured and unsubordinated debt.

UE expects to sell the Notes in an underwritten public offering pursuant to a prospectus supplement and underlying base prospectus to be filed with the Securities and Exchange Commission ("SEC"). The Company's underlying shelf registration statement on Form S-3 for the registration of the Notes was initially filed with the SEC on May 3, 2002 and became effective August 13, 2002. An underwriting agreement is to be executed between the Company and one or more financial institutions, which will serve as underwriters for this financing.

With regard to the purpose of the financing, UE says it will use up to \$77,900,000 of the proceeds from the sale of the Notes to refund through redemption its \$75,000,000 first mortgage bonds, which have an interest rate of 7.15%, due August 1, 2023, and pay related expenses. The existing bonds were issued pursuant to a Commission Order in Docket 92-0030, and on August 1, 2003, become subject to call at a redemption price of 103.01%.

The use of these proceeds are expected to be allocated as follows: (i) \$75,000,000 to redeem the principal amount of the outstanding indebtedness, (ii) \$2,257,500 for the related redemption premium, and (iii) up to \$642,500 for related expenses including, but not limited to, fees paid to underwriters. UE indicates that the remaining \$122,100,000 of the proceeds from the sale of the Notes will be used to repay short-term debt temporarily required for the retirement and refinancing of its \$100,000,000 7.65% first mortgage bonds maturing on July 15, 2003, previously

approved by the Commission in Docket 91-0540, to repay existing short-term debt and pay related expenses, including, but not limited to, fees paid to underwriters.

The Company expects that it will realize substantial savings by issuing a new series of lower cost Notes to optionally redeem the 7.15% Series of first mortgage bonds. Further, UE believes that refunding the maturing 7.65% Series of first mortgage bonds and repaying short-term debt at the same time will allow it to take advantage of the current favorable interest rate environment and minimize transaction costs.

With regard to whether Section 6-102(b) of the Act is applicable, UE says that this section does not apply to any issuance of stocks or of bonds, notes or other evidences of indebtedness for which 90% or more of the proceeds are to be used for purposes of refunding, redeeming or refinancing outstanding issues of stock, bonds, notes or other evidences of indebtedness and preferred stock. According to UE, because more than 90% of the proceeds from the issuance of the Notes will be used by the Company for purposes of refunding outstanding evidences of indebtedness, the proposed issuance and sale of the Notes are not subject to subsection (b) of Section 6-102 of the Act.

With regard to the fee to be paid pursuant to Section 6-108 of the Act, UE says there is no fee required for \$175,000,000 of the proceeds, because that amount will be used to refund the principal amount of long-term debt for which the required fees have already been paid to the Commission. As to the remaining proceeds of \$25,000,000, the Company says it will pay the required fee under Section 6-108 of the Act, reflecting the percentage of the Company's utility property located in the State of Illinois, no later than 30 days after service of the Commission order authorizing the proposed financing. For purposes of the fee calculation, the Company states that as of December 31, 2002, its property situated in the State of Illinois constituted 6.16% of its total property wherever situated.

Staff's Response

Staff reviewed UE's Informational Statement and Article VI of the Act. In its response, Staff states that the Company's proposal is subject to Section 6-101 of the Act, which requires the Commission to provide proper identification numbers on the proposed Notes when issued, and Section 6-102(a), which requires a Commission Order authorizing the proposed issuance and sale of the Notes. Staff further states that the Company's proposal is not subject to Section 6-102(b) since all the proceeds will be used for the purpose of refunding outstanding issues of stock, bonds, notes or other evidences of indebtedness, and is also not subject to Section 6-102(c).

In its response, Staff also states that the Company's proposal is subject to Section 6-102(d), which requires the Informational Statement filed by the Company and a Commission Order in conformance with Section 6-102(a).

Staff also asserts, and the Commission agrees, that since \$75,000,000 of the proceeds will be used for the purpose of refunding outstanding indebtedness that was issued with the consent of the Commission, no fee is required for that portion of the proposed issuance pursuant to Section 6-108 of the Act.

As for the remaining \$125,000,000, Staff states that UE should be required to pay a fee in an amount equal to 24 cents for every \$100 of such principal amount of Notes, prorated by the percentage of UE's property situated in Illinois. Staff notes that as of December 31, 2002, 6.16% of UE's total property was situated in Illinois. Staff calculates the required fee to be \$18,480, which is to be paid no later than 30 days after service of the Commission order authorizing the issuance of the Notes.

According to Staff, UE indicated that it does not agree with Staff's method of determining the Company's proportion of new debt that requires the payment of a fee under Section 6-108 of the Act, but UE consents to pay the fee calculated by Staff. On this issue, the Commission finds, for purposes of this proceeding, that the fee of \$18,480 as calculated by Staff should be assessed and paid.

Staff further states that the Company's proposal is subject to 83 Ill. Adm. Code 240, which requires the Company to file reports relative to the issuance and sale of the Notes and application of the proceeds, unless the Commission Order provides otherwise pursuant to Section 240.30.

Staff states that the short-term-debt and first mortgage bonds to be retired from the proceeds of the proposed Notes have interest rates of 1.03% and 7.15%, respectively. Staff indicates that as of July 7, 2003, the interest rate available to UE for new senior secured notes with a 30-year maturity is approximately 5.5%.

In conclusion, Staff recommends that the Commission issue an Order, pursuant to Section 6-102(d) of the Act, authorizing the transactions described in the Company's Informational Statement, assessing a fee of \$18,480 pursuant to Section 6-108 of the Act, and identifying the applicable provisions of the Act and Administrative Code.

Findings and Ordering Paragraphs

The Commission, having considered the entire record herein, is of the opinion and finds that:

- (1) UE is a corporation engaged in the sale and distribution of electricity and gas in portions of the State of Illinois and, as such, is a public utility within the meaning of the Act;
- (2) the Commission has jurisdiction over UE and the subject matter of this proceeding;

- (3) the recitals of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (4) subject to the conditions set forth herein, UE's proposed issuance of up to \$200,000,000 principal amount of Senior Secured Notes, with the proceeds to be used only in the manner described in Finding (5) below, should be approved in accordance with Section 6-102(d) of the Act as set forth below;
- (5) all proceeds will be used to refund existing long-term indebtedness and to pay expenses and redemption premiums relating thereto, and to repay short-term debt and to pay related expenses; the total amount used for the repayment of short-term debt and the payment of related expenses, and for the payment of expenses and redemption premiums relating to the refunding of existing long-term indebtedness, may not exceed \$125,000,000;
- (6) the funds to be obtained from the issuance of the Notes are reasonably required for the purposes described herein;
- (7) the proposed transactions are not subject to the provisions of Section 6-102(b) of the Act;
- (8) in accordance with Section 6-101 of the Act, UE shall, before issuance of the Notes described herein, cause the following identification number to be placed on the face of such securities: Ill. C.C. No. 6280;
- (9) UE is required to pay a fee of \$18,480 in accordance with Section 6-108 of the Act; this fee shall be paid no later than 30 days after service of the Commission order;
- (10) UE shall comply with the reporting requirements of 83 Ill. Adm. Code 240.

IT IS THEREFORE ORDERED by the Commission that UE's proposed issuance of up to \$200,000,000 principal amount of Senior Secured Notes to be secured by an underlying mirror issue of first mortgage bonds until the release date described above, to be used for only those purposes described in Finding (5) above, is hereby approved in accordance with Section 6-102(d) of the Act.

IT IS FURTHER ORDERED that UE shall comply with Findings (4) through (10) of this Order.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 22nd day of July, 2003.

(SIGNED) EDWARD C. HURLEY

Chairman